



on Fraud

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Insurance fraud should not simply be a "cost of doing business."

Healthcare in the United States has a huge economic impact in this country driving nearly 20% of our nation's annual economic activity.

Healthcare accounts for nearly \$1.9 trillion in business every year with the National Healthcare Association estimating nearly 3%, or \$60 billion, a year is fraud. This calculates to nearly \$164 million a day.

If one were to combine this estimate with the nearly \$30 billion of fraud estimated within the property and casualty insurance industry, we would only then begin to understand the magnitude of the problem.

The Nebraska Legislature recognized the problems associated with the costs of insurance fraud and as a result passed the Insurance Fraud Act. The Legislature did not want the costs of insurance fraud to simply be a "cost of doing business" passed onto the consumer.

The Insurance Fraud Prevention Division (IFPD) consists of Nebraska certified law enforcement officers working under the Department of Insurance dealing specifically with issues addressed under the Insurance Fraud Act.

The mission of the IFPD is to confront the problem of insurance fraud and reduce the amount of premium dollars used to pay fraudulent claims.

The IFPD addresses this mission by:

Investigating Insurance Fraud. The IFPD has an excellent working relationship with local, state and federal prosecutors. In 2006, the IFPD investigated nearly six hundred complaints referred from the insurance industry, law enforcement sources, and consumers. Many investigations have resulted in criminal convictions. The IFPD has obtained criminal convictions on several types of insurance fraud including slips/falls, bogus workers' compensation claims, staged accidents, and diversion of insurance premiums to name a few.

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Unfortunately there are estimates indicating that only 15 - 16% of suspected fraud is reported to authorities.

Detecting Fraud. The IFPD maintains a close working relationship with those in the insurance industry, law enforcement nationwide, and prosecutors. The goal is to provide a resource to these agencies and to take a proactive approach in dealing with issues involving insurance fraud. Insurance fraud is evolving into different schemes taking place across the country.

Education. The IFPD works closely with the industry providing education to special investigation and claims personnel so they have the tools to help recognize fraudulent indicators. The IFPD also works closely with law enforcement statewide to provide a resource for case investigations as well as training. The IFPD has developed a training block to introduce law enforcement candidates to the problem of insurance fraud. In addition, the IFPD provides an educational resource to the public and encourages the public to recognize and report suspected violations of the Insurance Fraud Act.

Unfortunately there are estimates indicating that only 15 - 16% of suspected fraud is reported to authorities.

Although most states are similar to Nebraska in requiring mandatory reporting of suspected fraud, these statutes are often ignored. The State of Nebraska has the ability to pursue violations of these requirements both civilly and criminally.

Companies and/or agents should educate themselves as to violations of the Insurance Fraud Act as noted under Neb.Rev.Stat. §44-6604. The complete statute can be reviewed under the department's website:
www.doi.ne.gov/fraud/ifa.htm

As the problems associated with insurance fraud continue to grow, we will see increased consumer concerns. This, in turn, may very well result in stricter regulations on the investigating and reporting requirements in order to alleviate some of the costs associated with insurance fraud.

The economic impact of the insurance industry in Nebraska

The economic impact of the insurance industry in Nebraska was addressed by Dr. Ernest Goss, Creighton University, to the Insurance Federation of Nebraska on December 14, 2006. Dr. Goss emphasized the fiscal impact of the insurance industry in Nebraska in a study prepared for the Insurance Federation. Dr. Goss outlined several important aspects for 2006, including:

- It is estimated that the Nebraska insurance industry will generate \$361.6 million in state and local taxes and fees as a result of its spending in the state.
- Nebraska insurance industry spending will add an estimated \$6.9 billion in sales for the state economy.
- The insurance industry spending supports roughly 50,179 jobs with a total pay-

Dr. Goss emphasized the fiscal impact of the insurance industry in Nebraska.

roll of approximately \$2.1 billion.

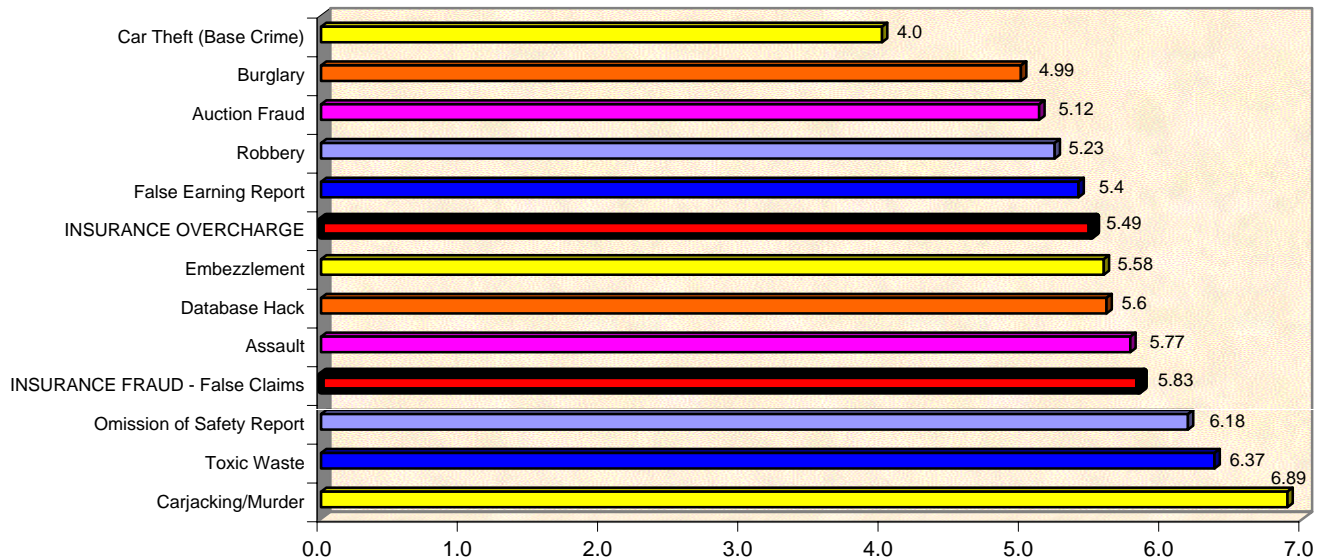
- Insurance industry jobs in Nebraska account for 3.4% of the state's work force.
- Every \$1,000,000 in additional Nebraska insurance premiums creates approximately \$941,000 in overall economic activity, \$279,000 in wages/salaries, \$21,000 in self-employment income, \$49,000 in state and local taxes and 6.8 jobs.

Perception is everything.

Insurance claims fraud were considered more serious than the traditional crimes of burglary or robbery by the respondents.

The National White Collar Crime Center recently provided findings of the 2005 National Public Survey on White Collar Crime. The survey addressed, in part, the perception of the public as to the seriousness of a crime. The survey inquired about individuals' perceptions of crime seriousness by having them rate 12 given crime scenarios. These scenarios included white collar crimes as well as the more traditional crimes such as burglary or robbery. Respondents were asked to rate each of 12 crimes on a scale of 1 (not serious) to 7 (very serious) after considering a base crime of stealing a car (which was scored in the neutral range of 4).

Average Crime Seriousness Scores per Scenario:



Although this was a limited study, it is interesting to note insurance overcharge and insurance claims fraud were considered more serious than the traditional crimes of burglary or robbery by the respondents.

Lengthy investigation emphasizes importance of reporting suspected insurance fraud.

Mr. Miller had his 2003 Nissan pickup insured through a carrier domiciled in Nebraska. Mr. Miller became concerned over the quality of the repairs to the windshield in his pickup and contacted his insurance agent to inquire about the charges.

Mr. Miller was surprised to find that his pickup "windshield chip repair" was billed as "back glass replacement." Mr. Miller was even more surprised to find that a windshield chip repair he had completed, on the same windshield several months earlier, was billed as a "windshield replacement."

Mr. Miller's inquiries gained the attention of his insurance company's property casualty claims manager who recognized this might not be an isolated incident. Mr. Miller's attentiveness led to a referral to the IFPD questioning the two claims submitted by the glass vendor.

The IFPD issued a fraud inquiry and gathered information pertaining to this glass vendor, as well as a second glass vendor suspected of conducting similar activity. This information led to an investigation involving numerous bogus automobile glass claims submitted over a period of several years. This case emphasizes the importance of mandatory reporting of insurance fraud. No doubt this was not the first incident that was discovered by insurers. Failing to report suspected insurance fraud might very well lead to ongoing criminal activity costing consumers hundreds of thousands of dollars.

Owner of Viking Glass charged with 10 felony counts of insurance fraud.

A joint investigation by the Nebraska Department of Insurance Fraud Prevention Division and the Nebraska Attorney General's Office found that 40-year-old James Almond, III, owner of Viking Glass, submitted fake invoices for automobile glass repair and replacement to 10 different property and casualty insurance companies. Ten insurance fraud charges have been filed in Douglas County against Mr. Almond.

"Consumers paid the price when their insurance companies were robbed," Attorney General Bruning said. "Now, Mr. Almond will pay the price for his actions."

"The costs involved in paying fraudulent insurance claims are often passed directly to the consumer," Director Wagner said. "The goal of the Nebraska Department of Insurance is to keep consumer premiums low by fighting insurance fraud."

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"Consumers paid the price when their insurance companies were robbed," Attorney General Bruning said. "Now, Mr. Almond will pay the price for his actions."

Between October 2003 and December 2005, Almond submitted 85 fake invoices on behalf of consumers to their insurance companies and third party administrators. Mr. Almond was charged with one felony count for each of the 10 insurers identified as victims of the crime.

Former insurance agent charged with insurance fraud.

James D. Knoll, a former insurance agent, was charged November 6, 2006, in Keith County Court, for six felony counts of insurance fraud. Mr. Knoll was accused of diverting insurance premiums paid by the Keith County Agricultural Society on six different occasions between November 7, 2003 and October 8, 2005, each constituting a class III felony.

Mr. Knoll is also being charged with one class IV felony for issuing a counterfeit insurance policy or certificate of insurance.

Mr. Knoll waived his right to a preliminary hearing and the matter has been bound over to Keith County District Court.

Mr. Knoll's charges are the result of an investigation conducted by the Department of Insurance Fraud Prevention Division.

2006 Insurance Fraud Statistics

During 2006 the IFPD received **589** case referrals regarding potential violations of the Nebraska Insurance Fraud Act. One hundred twenty nine (22%) of the case referrals were made through the National Insurance Crime Bureau (NICB) and eight case referrals were made via the National Association of Insurance Commissioners (NAIC).

Sixty one percent (61%) of cases reported an **actual** or **potential** monetary loss exceeding \$1.9 million.

Cases are evaluated based upon a number of criteria, including the statute of limitations, applicability of Nebraska statutes, and solvability factors. Upon completion of the case review, status letters are generated to the complainant informing them whether the referral was declined, referred to another agency, or accepted for further investigation.

Mr. Knoll was accused of diverting insurance premiums on six different occasions.

589 referrals were received during 2006.

2006 reported losses exceeded \$1.9 million.

An investigative summary report is prepared for cases that are submitted to a prosecutor for consideration.

Suspected insurance fraud referrals were received from 41 Nebraska counties.

The IFPD investigated the following types of insurance fraud cases during 2006:

Property/Casualty = 526 Cases (89%)

Life/Health = 29 Cases (5%)

Agent or Internal Fraud = 33 Cases (6%)

Other Fraud = 1 Case

Upon completion of case investigation, the IFPD determines whether to classify the case as unfounded, insufficient evidence for prosecution, or sufficient evidence to forward the information to a prosecutor for consideration. Before sending a case for a prosecutor's review, the IFPD prepares an investigative summary report outlining the circumstances of the investigation.

2006 Cases Sent for Criminal Prosecution:

- 96 Cases
- 9 Suspects Involved

2006 Convictions:

- 45 Cases
- 12 Suspects Involved

2006 Court Ordered Restitution of IFPD Investigative Costs:

- 6 Cases
- Restitution totaling \$3,593.73

Cases referred to the IFPD for investigation had venue in 41 Nebraska counties. Seventy nine percent of cases (466 cases) were located in Douglas, Lancaster, and Sarpy Counties.

Nebraska Criminal Justice Information System (NCJIS)

The IFPD continues to query insurance fraud suspects through the Nebraska Crime Commission's Criminal Justice Information System Database. A suspect's prior criminal history is checked pursuant to the investigation.

Suspects Queried thru NCJIS = 239

Suspects with Positive NCJIS Record = 128 (54%)

States with the highest number of deer-related accidents

1. Pennsylvania
2. Michigan
3. Illinois
4. Ohio
5. Georgia
6. Virginia
7. Minnesota
8. Texas
9. Indiana
10. South Carolina

Source: State Farm



Criminal Convictions

Sarpy County District Court, CR06-205

State v. Jason E. Deneault

Jason E. Deneault was convicted on one count of insurance fraud on August 24, 2006, in Sarpy County District Court, Nebraska. Mr. Deneault was found guilty of providing false information pursuant to an insurance claim and fined \$100 plus court costs of \$188.09.

Gage County Court, CR06-643

State v. Dawn M. Young

On October 17, 2006, Dawn M. Young pled guilty to one count of insurance fraud. Ms. Young was accused of reporting to Sentry Insurance a Mutual Company that she was injured as a result of an automobile accident although it was later discovered she was not in the vehicle during the time of the collision. Judge Steven Timm, in finding Ms. Young guilty as charged, ordered a fine of \$100 plus court costs. In addition, Ms. Young was ordered to make restitution in the amount of \$501.31.

Lancaster County District Court, CR06-440

State v. Kim R. Covey

Kim Covey was found guilty in the District Court of Lancaster County on one count of an amended charge of making a false statement under oath and one count of fraudulent insurance act. Ms. Covey was alleged to have made a false statement pertaining to a workers' compensation claim. District Court Judge John Colborn sentenced Ms. Covey to two years concurrent probation on both charges and required Ms. Covey to pay related costs.

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